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Outlook 2010: On the Road to Economic Recovery

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Provincial Reports

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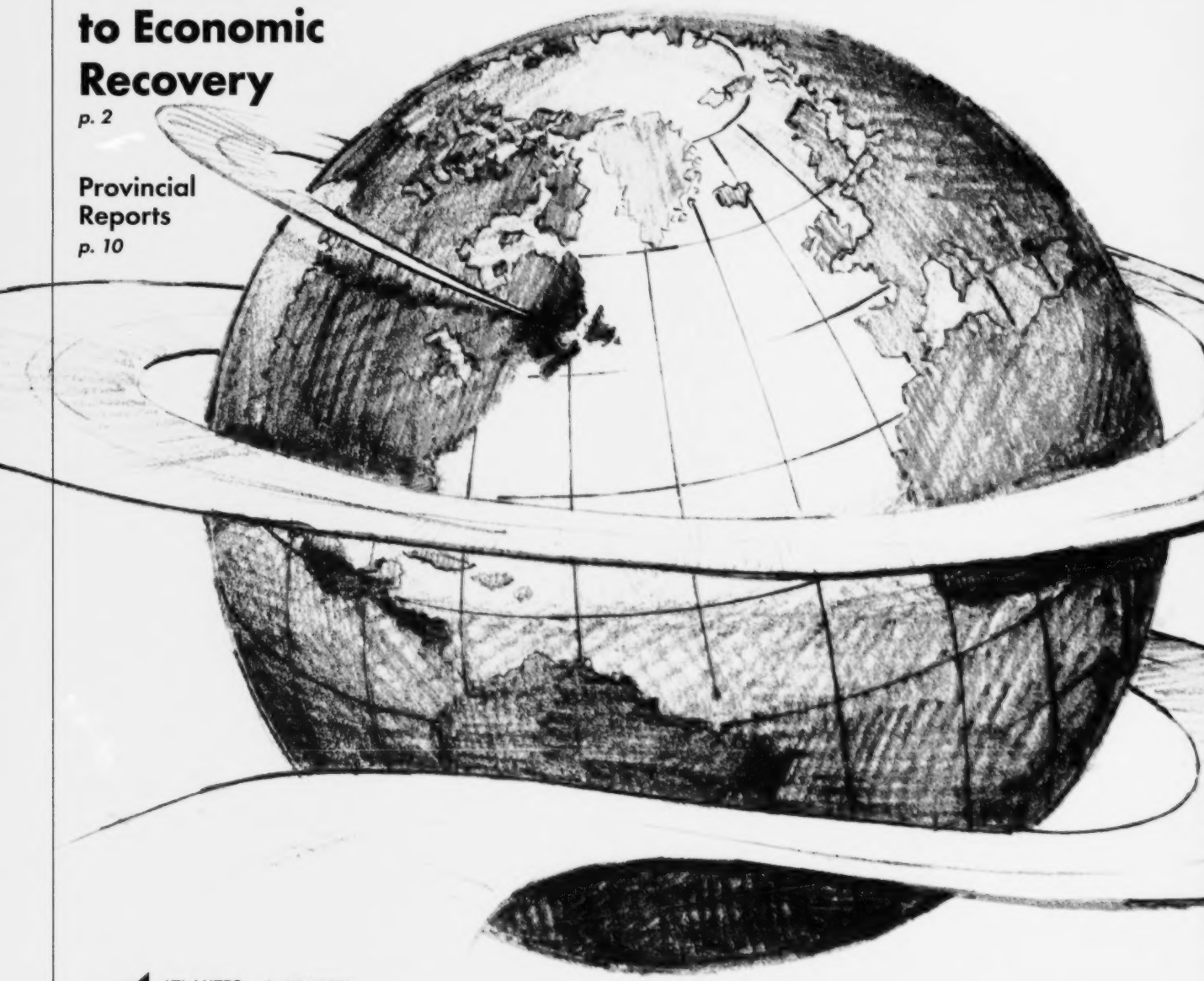

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The Atlantic Provinces Economic Council (APEC) is an independent, not-for-profit, research and public policy organization that seeks to advance the economic development of the Atlantic Region. APEC's revenue is derived primarily from membership, funded research and sponsorships. Our membership includes individuals, small and large companies, labour groups, academic institutions, municipalities and government agencies.

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About this Report

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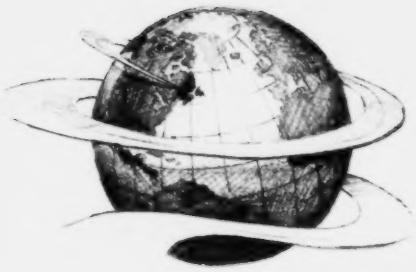


Highlights

Outlook 2010: On the Road to Economic Recovery

- The world economy is showing signs of recovery following the deepest global recession since World War II. Massive fiscal and monetary stimulus, along with targeted interventions in financial markets and institutions, are gaining traction and will contribute to a rise in global output in 2010.

- However, the recovery is expected to be sluggish by historical standards and risks remain. In particular, there are concerns about how robust private sector demand will be, especially in countries where household wealth has declined substantially. Policy makers will need to carefully manage how quickly they unwind their stimulus policies.

- Atlantic Canada was not hit as severely as some other parts of Canada by the recession. Fiscal stimulus, a recovery in consumer and business confidence, and a gradual pick up in global demand should help Atlantic Canada return to growth in 2010. However, the higher Canadian dollar will temper the impact of improving U.S. demand on Atlantic exports.

- Longer-term challenges for the Atlantic region include the risk of slower U.S. growth, an aging population, the need to address swollen provincial deficits, and the need for stronger action on climate change.

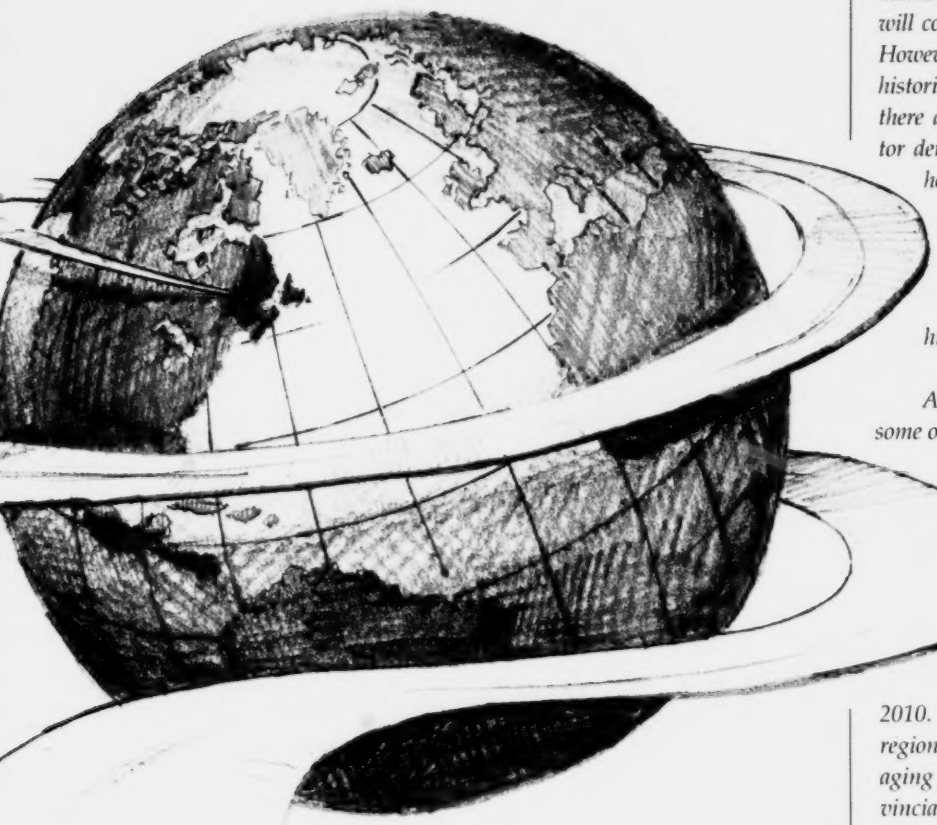
- **Newfoundland and Labrador** is expected to lead growth in the Atlantic region next year with a gain of 3.0%, following this year's 6.5% decline, which was largely due to significant declines in output in the mining and offshore oil industries. Next year's growth will reflect a rebound in output in the mining industry, supplemented by higher investment spending in the mining and offshore oil industries.

- **Prince Edward Island** held up reasonably well during the recession with real GDP expected to recover from growth of 0.4% in 2009 to 1.5% next year. Higher government spending will help underpin the Island's recovery.

- Halifax's role as a government and service centre helped provide some stability to **Nova Scotia**'s economy despite output and employment declines elsewhere in the province. Nova Scotia's economic growth is forecast to recover from a 0.8% decline this year to growth of 1.7% in 2010, helped by higher output of natural gas and growth in investment spending.

- **New Brunswick**'s export dependent economy was hit hard by the recession and hopes of a strong rebound were dashed by the decision not to proceed with a second refinery in Saint John. APEC predicts that higher consumption and investment spending and improving export demand will help revive economic growth to 1.4% in 2010, compared with a decline of 1.1% this year.

Outlook 2010: On the Road to Economic Recovery



The world economy is showing signs of recovery following the deepest global recession since World War II. Massive fiscal and monetary stimulus, along with targeted interventions in financial markets and institutions, are gaining traction and will contribute to a rise in global output in 2010. However, the recovery is expected to be sluggish by historical standards and risks remain. In particular, there are concerns about how robust private sector demand will be, especially in countries where household wealth has declined substantially. Policy makers will need to carefully manage how quickly they unwind their stimulus policies. In the longer term, governments will need to address their significantly higher fiscal deficits.

Atlantic Canada was not hit as severely as some other parts of Canada by the recession. Most indicators, including exports, employment and retail spending show smaller declines in the Atlantic region. Fiscal stimulus, a recovery in consumer and business confidence, and a gradual pick-up in global demand should help Atlantic Canada return to growth in 2010. Longer-term challenges for the Atlantic region include the risk of slower U.S. growth, an aging population, the need to address swollen provincial deficits, and the need for stronger action on climate change.

Global Outlook

While the U.S. was the epicentre of the financial crisis, it has not experienced the largest decline in output. The integrated nature of the world's financial markets, highly interconnected regional and global supply chains, the collapse of housing markets in several countries and global fears of a recession contributed to steep output declines in many advanced economies. For example, the IMF predicts that in 2009 real GDP will decline by 4.2% in the European Union and by 5.4% in Japan, compared with a drop of 2.7% in the

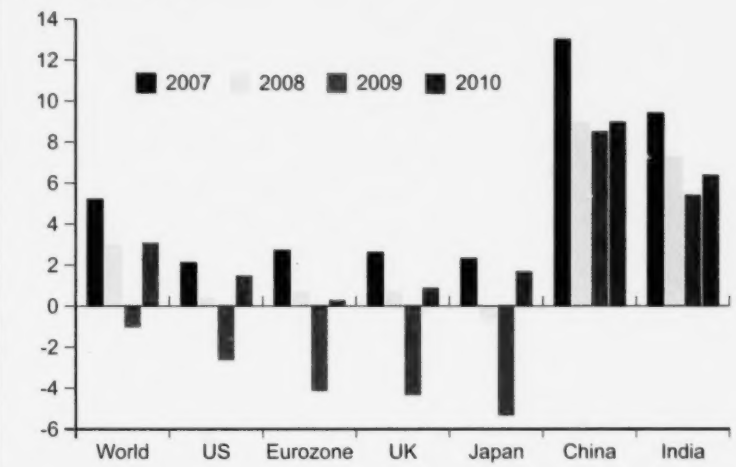
U.S. The drop in Atlantic Canada's exports reflect this picture: In the year to August, the region's merchandise exports to the U.S. fell by 32%, but exports to the European Union dropped by 55% and exports to Japan were down 45%.

The recovery is expected to be relatively weak in Europe and Japan as tight credit conditions constrain private investment and rising unemployment acts as a drag on consumption. The IMF projects economic growth in 2010 of only 0.3% in the Euro area, 0.9% in the U.K. and 1.7% in Japan. Weak demand will therefore continue to weigh on Atlantic exports to these regions.

In emerging and developing economies output declined in eastern Europe and Latin America in 2009 but has continued to grow, albeit at a reduced pace, in Asia. Helped by public stimulus, economic growth in 2009 has moderated to an estimated 8.5% in China and to 5.4% in India, providing support for Atlantic Canada's exports. In the year to August, merchandise exports to China are up by 137% (due to higher iron ore exports from Newfoundland and Labrador) and exports to India rose 47% (helped by higher pulp exports from New Brunswick). Public stimulus should continue to support domestic demand into 2010, with growth in China and India forecast to rise to 9.0% and 6.4% respectively.

Global commodity prices plunged faster and further in the second half of 2008 than in previous recessions, but have also rebounded more strongly this year than in past recoveries. The rebound reflects improved confidence, restocking of metals by China, and supply cuts. Elevated inventories and spare capacity should limit further price gains in the near term but a stronger-than-expected rebound in 2010 could lead to a resumption of upward pressure on prices.

Extent of Global Recession and Recovery Varies by Region
Real GDP growth (%)



Source: IMF/APEC

After hitting a low of US$0.77 in early March, the Canadian dollar has appreciated to more than US$0.95 by mid-October. The U.S. dollar has weakened against a range of countries as financial markets have improved and investors give more attention to high levels of U.S. borrowing. Improvements in commodity prices have also boosted the Canadian dollar with some further strengthening against the U.S. dollar likely into 2010.

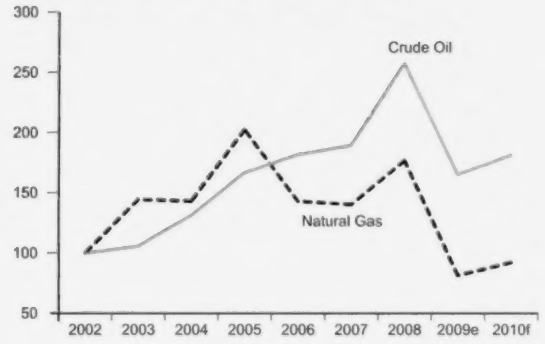
U.S. Outlook

The U.S. economy is expected to resume growth in the second half of 2009 after the longest and deepest recession since World War II. The initial recovery is largely driven by fiscal and monetary stimulus, supported by improving business and consumer confidence. For example, the "cash for clunkers" program led to a significant rebound in U.S. car sales in August. However, some of these car sales may be at the expense of future purchases. Output has also benefited from firms looking to boost depleted inventories, but this effect will also be temporary. A large jump in the growth rate in the third quarter of 2009 is therefore not expected to carry over into 2010. APEC's consensus forecast

Commodity Price Swings Have Big Impact on Atlantic Canada's Economy

The steep drop in commodity prices in the second half of 2008 and into 2009 had a significant impact on Atlantic Canada's economy. The drop in prices led to the closure of mines in New Brunswick and Nova Scotia and temporary shutdowns in Labrador. Across the region, spending on mining exploration fell by about 50% this year to $97 million while an $800 million expansion at the Iron Ore Company of Canada mine in Labrador was cancelled. Development of offshore oil and gas projects like Deep Panuke in Nova Scotia and the White Rose expansion in Newfoundland were well advanced before last year's economic crisis and have continued to move forward. Plans for the Hebron oil project are also advancing reflecting the long-term nature of such projects. However, offshore royalties have taken a big hit this fiscal year, down more than $900 million in Newfoundland and Labrador and by $300 million in Nova Scotia.

The Canadian Dollar Will Offset Some of the Recovery in Energy Prices
Energy prices in Canadian dollars (Index, 2002=100)



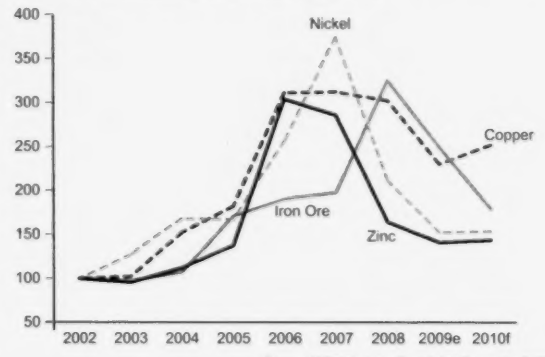
Source: APEC/Statistics Canada/TD Economics/BMO/IMF

Commodity prices stabilized in the second quarter of 2009 and in most cases have begun to slowly recover aided by a strong rebound in Asia and stockpiling in China. Further gains in commodity prices are expected in all sectors in 2010 as global demand picks up. Elevated inventories and weak demand growth would contain the rebound in prices, while steeper production cuts combined with a rapid global recovery would quickly put further upward pressure on prices.

In Atlantic Canada the improvement in prices should help revive some of the region's resource related industries but a higher dollar will offset some of those gains and may delay a full recovery beyond 2010. Construction costs for large infrastructure projects may start to rise again while provincial governments should benefit from some improvement in resource revenues. Consumers are likely to see modest increases in gasoline prices and home heating costs next year.

The outlook for oil prices is positive as U.S. demand picks up along with growth in China and other developing countries. The average oil price in Canadian dollars in 2010 ($75 per barrel) is forecast to be similar to the average price in 2007. The longer-term trend of steadily rising oil prices is expected to continue, which should support future offshore oil developments in Newfoundland and Labrador. Natural gas prices have so far stayed low as increased supplies of shale gas from the southern U.S. have boosted inventories. Natural gas prices are expected to see modest improvement in 2010 as production slows in the U.S. and industrial demand picks up.

Metal Prices Still Above Historical Norms Despite Steep Drop
Metal prices in Canadian dollars (Index, 2002=100)



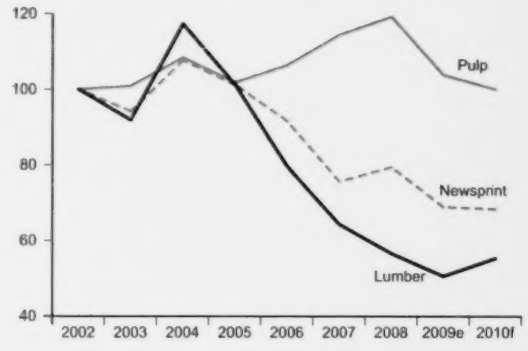
Source: APEC/Statistics Canada/TD Economics/BMO/IMF

Metals that are important to Atlantic Canadian production (iron ore, nickel, zinc, copper and lead) have, with the exception of iron ore, had a solid rebound in prices over the last six months. Some of the improvement is due to the restocking of inventories in China after the recession; prices are expected to improve at a more modest rate in 2010. Potash production is down significantly this year. The region's only producing mine in the region in New Brunswick is in the midst of a $1.7 billion expansion but the existing operation has been out of production for several months this year because of weak demand and low prices.

Forest product prices are not expected to gain much ground next year and the stronger Canadian dollar is a huge concern as the forest industry gets hit harder than any other industry because nearly all of its inputs come from Canada. Lumber prices dropped to below US$150/mbf earlier in 2009 but have since rebounded to well over $200. The U.S housing market has stabilized and the Canadian market

has shown some growth in recent months. Further improvement will boost prices a bit over the next year but this will only help restart the most productive sawmills in the region. Newsprint production has fallen dramatically in Atlantic Canada over the last five years. The remaining two mills in Nova Scotia and one in Newfoundland are struggling with weaker demand for newsprint and low cost competition. The higher value paper production in the region is in better shape but is also under pressure from low cost competitors. Pulp prices have held up quite well in the last few years as supply has been reduced and this should help maintain production levels at Atlantic mills into 2010.

Newsprint and Lumber Prices to Remain Depressed Next Year
Forest product prices in Canadian dollars (Index, 2002=100)



Source: APEC/Statistics Canada/TD Economics/BMO

for U.S. growth next year is 2.3% although some forecasts are significantly weaker. The higher Canadian dollar will also temper the impact of improving U.S. demand on Atlantic exports.

The U.S. continues to shed jobs, although at a slower pace than earlier in the year. The U.S. has lost a cumulative 6.7 million jobs (5% of its total employment) since the end of 2007. As a result, the unemployment rate has doubled over this period, reaching 9.8% in September 2009. The unemployment rate is expected to peak at about 10% in 2010, its highest level in 27 years. Rising unemployment, the loss of net worth (house prices are down 30% since 2006) and tighter credit will remain a drag on U.S. consumer spending, which is expected to grow by little over 1% next year.

Inflation is expected to remain below 2% next year, allowing the Federal Reserve to keep interest rates at historic lows for most of the year. However, there are risks that the inflation rate may move higher as the recovery takes hold. The need to reduce the fiscal deficit, currently at over 10% of GDP, will weigh on U.S. medium-term prospects while rising debt levels will undermine the value of the U.S. dollar.

The U.S. housing market shows signs of bottoming out: the number of new housing starts has stabilised this year (although the total number of units under construction has continued to decline); inventories of unsold homes are down from earlier peaks and home prices have shown three consecutive monthly gains. While some recovery in new home construction is expected in 2010, the annual number of housing starts will remain at least half the level experienced in the early 2000s. With lumber prices remaining near historic lows and the Canadian dollar rising, there is little comfort for Atlantic lumber exporters.

Canadian Outlook

APEC expects Canadian growth to recover to 2.5% in 2010. Motor vehicle production is already improving and low interest rates and tax incentives are stimulating an increase in housing construction and resale activity. Higher government infrastructure spending will boost economic growth next year along with support from improving global demand. Private capital investment is expected to

Canadian Outlook	2008	2009e	2010f
GDP (% Ch)	0.4	-2.3	2.5
Employment (% Ch)	1.5	-1.6	0.7
Unemployment Rate (%)	6.6	8.3	8.9
Housing Starts (000s)	211	141	160
Retail Sales (% Ch)	3.4	-3.8	3.4
Inflation (% Change CPI)	2.4	0.3	1.5
Interest Rates (Overnight target rate)*	1.50	0.25	0.75
Exchange Rate (US$/Can$)*	0.82	0.95	1.00

*year-end figures, e=estimate, f=forecast

Source: APEC

decline further while credit markets are improving, corporate profits will only slowly recover and many firms will still be operating below full capacity next year.

Consumer prices have declined so far this year because energy prices have been much lower than the highs experienced in the first half of 2008. However, the overall consumer inflation rate will pick up towards the end of 2009 and into next year as this energy price deflation effect fades. As Canada is not expected to regain its pre-recession level of GDP until late 2010, and not reach potential output until the second half of 2011, inflation pressures are expected to remain subdued.

In this context, the Bank of Canada is expected to keep its target interest rate at the current level of 0.25% through the first half of 2010. However, there is considerable range of opinion as to how quickly the Bank will raise interest rates in the second half of the year, with current commercial bank forecasts ranging from a target overnight rate of 0.25% (no change) to 1.5% by the end of 2010. A stronger Canadian dollar will likely delay any rise in interest rates.

The federal deficit is forecast to rise to $56 billion in 2009-2010, equivalent to 3.7% of GDP, well below the 5.6% deficit-to-GDP ratio experienced in the 1992-1993 recession. The government's Economic Action Plan is estimated to cost $29 billion in 2009-2010 (including $10 billion for the auto sector), receding to $17 billion in 2010-2011. However, several independent forecasts assume that the biggest impact of federal infrastructure spending will be felt in 2010.

The federal government projects that its deficit will fall to $5 billion by 2014-2015 due to a recovery in revenues and slower growth in spending due to a decline in EI benefits as the labour market improves. However, higher debt and interest rates will push up debt charges by over one-third, or $11 billion, between 2009-2010 and 2014-2015. The federal government says it will not raise taxes and will "protect the growth track of major transfers" to persons and other levels of government. The government indicates that it will restrain growth in direct program expenses to reach its budget target: program spending (aside from stimulus spending) is expected to grow at an annual rate of 3.4% between 2009-2010 and 2014-2015, about half the 7% growth rate experienced in recent years.

Atlantic Canada

In Atlantic Canada, government infrastructure spending is expected to add further to growth next year but private major project spending is expected to remain weak. Only Newfoundland and Labrador is expected to see significant growth as spending ramps up on the Vale Inco processing facility. Housing markets are expected to pick up slightly next year, supported by still low interest and mortgage rates, but will remain at low levels following this year's 20% drop in housing starts. A drop in the number of resales likely contributed to a decline in renovation activity this year, but renovation spending was supported by the temporary boost from the federal Home Renovation Tax Credit.

Output of oil and gas in Atlantic Canada has fallen considerably this year, due to lower output at maturing fields and some temporary shutdowns. A new production well will contribute to a recovery in natural gas production in Nova Scotia but overall oil production in Newfoundland and Labrador will be little changed. Output was reduced substantially at several mines this year due to low commod-

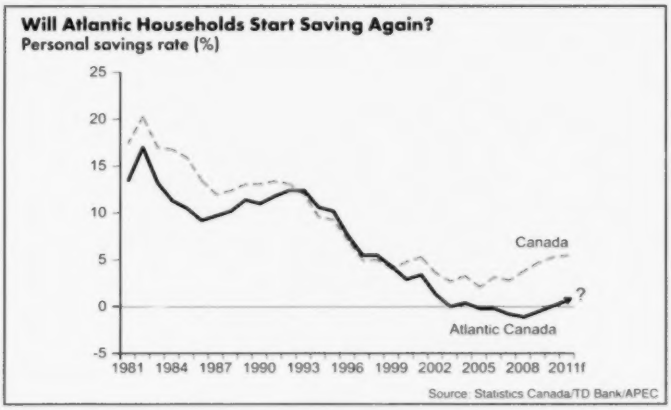
Will Atlantic Consumers Save More and Borrow Less?

Recession Trends

Atlantic Canadian consumers have weathered the global recession much better than their Canadian counterparts. Retail sales in Atlantic Canada in the second quarter (April-June) of 2009 were down only 0.3% from a year earlier, compared with a drop of 5.2% nationally. However, these declines partly reflect a steep drop in gasoline prices. Excluding purchases from gasoline stations, overall retail sales in Atlantic Canada were 2.5% higher in the second quarter of 2009 than a year earlier, while nationally retail sales fell by 2.3%. Spending did decline on big-ticket items such as automobiles. The value of Atlantic motor vehicle sales in the first quarter of 2009 were down more than 14%, the steepest year-over-year decline since the early 1990s.

Saving Less, Borrowing More

Atlantic consumer spending has grown at an average annual rate of 2.8% in the last five years, well below the 3.7% national pace. While recent spending in Atlantic Canada has been boosted by rising wealth, higher borrowing, low interest rates and a decline in savings, these factors are likely to be less supportive over the next few years.



A number of Atlantic consumers have benefited from rising wealth, most notably in terms of stock market investments and real estate. The S&P/TSX Composite Index almost doubled in value between 2002 and 2007. However, the Index fell 38% over the second half of 2008 and, despite a recovery this year, the S&P/TSX Index at the beginning of October 2009 was still 25% below the May 2008 peak. House prices in Atlantic Canada have also risen in recent years and have continued to advance during the last year.

Growth in consumer spending has been facilitated by a considerable increase in borrowing. Personal loans as a share of disposable (i.e. after-tax) income has risen in Atlantic Canada from 25% in 2000 to 32% in 2008. Banks have tightened lending conditions over the last year and this may restrain future growth in consumer credit. Non-residential household credit in Canada has slowed from an annual growth rate of over 10% in 2007 to about 7% in June 2009, but still supported by historically low interest rates. With higher debt levels than in the past, Atlantic households will find their debt payments rising as interest rates move up over the next few years. Atlantic personal bankruptcy rates have already jumped 20% in the first half of 2009.

Atlantic households are saving less, with the savings rate declining from 12% in 1993 to -1% in 2008, which means that Atlantic consumers are now spending more than their disposable income. The savings rate in Atlantic Canada has continued to fall since 2002, even though it has stabilized nationally. In Canada, the savings rate rose to 3.7% in 2008 and one forecaster predicts it will average 6-7% over the next five years as consumers rebuild their wealth and retirement savings, and rely more on savings rather than borrowing or capital gains.* Will Atlantic households return to more thrifty ways? If they do, a rise in the savings rate will dampen the rebound in consumer spending and contribute to a more subdued economic recovery, both regionally and nationally.

** TD Bank Financial Group, Shift to Thrift, 20 May 2009.*

ity prices. Mine production is expected to rebound next year but demand and commodity prices may not rise sufficiently to ensure full year production.

Atlantic Canada's manufacturing sector was hit relatively hard by the global recession: according to Statistics Canada's Labour Force Survey, employment fell by 14% from the third quarter of 2008 to the third quarter of 2009, compared with an 11% decline nationally. A gradual recovery in global demand will provide some lift to manufacturing exports, but the rise in the Canadian dollar, ongoing competitiveness concerns and excess capacity in resource-based sectors means that further plant closures in the Atlantic region are possible over the next few years. The tourism sector is not expected to see much pick-up due to the higher Canadian dollar and firmer gasoline prices compared to summer 2009. The recovery in other service exports will also be modest as U.S. investment spending is not expected to pick up until 2011.

Atlantic unemployment rates will remain close to this year's elevated levels as employment grows only modestly due to continuing competitive pressures in traditional industries and restraint in hiring in the public sector as governments address swollen budget deficits. According to the Labour Force Survey, employment in public administration in the Atlantic provinces has already declined by 3% in the third quarter of 2009 from the second quarter. Expansion of private services will be key for job growth but Atlantic employment in business services has been trending down since 2006. Weak investment spending will weigh on growth in professional services with employment down 4.5% since the beginning of the year. Employment in Atlantic Canada's retail sector fell more than nationally during the recession, despite a smaller drop in Atlantic retail sales. Some of these jobs should be regained: Atlantic retail employment in the third quarter of 2009 was already up 2.6% from the second quarter.

Wage growth is expected to be modest next year due to low inflation and higher unemployment, low profitability, competitive pressures in traditional industries and wage restraint in the public sector. Modest income growth and improved confidence will allow a moderate pick up in consumer spending in 2010. However, as interest rates start to rise credit growth is likely to moderate with the risks of debt default increasing into 2011.

Newfoundland and Labrador is expected to lead growth in the Atlantic region next year with a gain of 3.0%, following this year's 6.5% decline, which was largely due to significant declines in output in the mining and offshore oil industries. Next year's growth will reflect a rebound in output in the mining industry, supplemented by higher investment spending in the mining and offshore oil industries.

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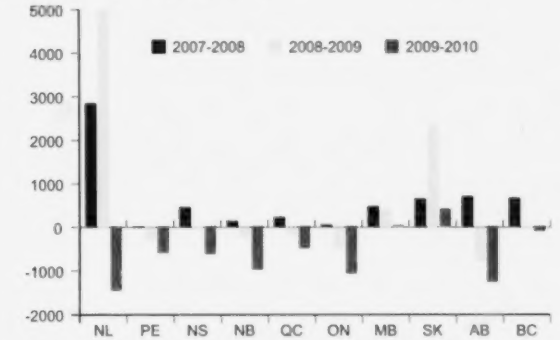
New Brunswick's export dependent economy was hit hard by the recession and hopes of a strong rebound were dashed by the decision not to proceed with a second refinery in Saint John. APEC predicts that higher consumption and investment spending and improving export demand will help revive economic growth to 1.4% in 2010, compared with a decline of 1.1% this year. ■

Atlantic Canada's Fiscal Situation

The fiscal situation has deteriorated substantially in all four Atlantic provinces over the last two years as own-source revenues have declined while spending has continued to grow. Although the global recession has had a small impact on Atlantic Canada on many economic indicators, it has had a relatively large impact on its public finances compared with other provinces.

Sharp Deterioration in Atlantic Canada's Public Finances
Budget balance per capita (dollars)

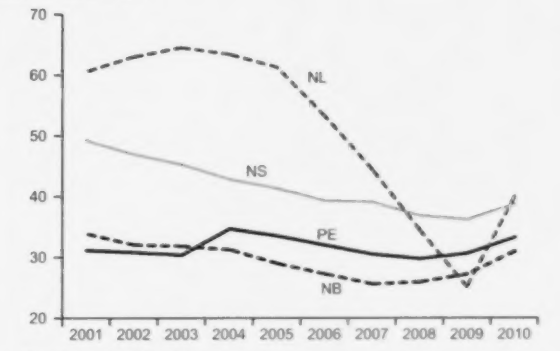


Source: Statistics Canada/Provincial Government Budgets and Provincial Accounts/APEC

Newfoundland and Labrador has experienced the sharpest deterioration in the country, going from a surplus of $2,840 per capita in 2007-2008 to a deficit of $1,475 per capita in 2009-2010. New Brunswick and Nova Scotia have also fallen into deficit, with their fiscal balances declining by more than $1,000 on a per capita basis – bigger drops than the average for all ten provinces.

A sharp drop in commodity prices is the biggest factor behind the decline in own-source revenues over the last two fiscal years. Atlantic revenues from royalties and mining taxes have fallen by more than $900 million over this period. Corporate tax revenues have also fallen sharply, down almost 25% in the three Maritime Provinces. Tax cuts have also played a role. New Brunswick is implementing a four-year plan to lower personal and corporate taxes; the first phase of this plan accounts for an estimated $143 million of its $741 million deficit this year. Higher federal transfers have cushioned the drop in own-source revenues (except in Newfoundland and Labrador which no longer qualifies for equalization payments).

Atlantic Debt Burdens Are Rising
Net debt to GDP (%)



Note: Fiscal Year Ended March 31

Source: Provincial Budgets/Statistics Canada/APEC

Spending has also increased sharply over the last two fiscal years. Capital budgets have increased by more than 35% as governments have tried to help support their economies. Meanwhile, higher spending on health, education, other programs and pension liabilities have pushed up total government spending by 17% across the region.

Fiscal Outlook

Current budget deficits range from 1.7% of GDP in Nova Scotia to 3.3% of GDP in Newfoundland and Labrador. These deficits, combined with public infrastructure commitments both this and next fiscal year, will place upward pressure on net debt to GDP ratios, a key measure of a government's ability to service and/or absorb more debt. Net debt to GDP ratios will rise this fiscal year in all four Atlantic provinces and are likely to rise further thereafter, by as much as five percentage points on average by 2012-2013 versus 2008-2009 if the policy environment remains status quo. After Quebec, Nova Scotia and Newfoundland and Labrador already have the highest net debt to GDP ratios in Canada. Debt service costs in the Atlantic Canada will increase over the next few years due to higher debt, rising interest rates and the possibility of lower credit ratings pushing up effective borrowing costs.

Atlantic provincial governments face a challenging task to return their finances to balance. The economic recovery and improvement in commodity prices should provide some gain in own-source revenues, although in New Brunswick the Finance department estimates that its tax cuts will reduce its revenues by $380 million by 2012-2013. Based on experiences from the 1990s, there is a risk that the federal government will restrain the growth in federal transfers over the medium term as it attempts to eliminate its own deficit. Moreover, provincial spending on health, education and other programs have outpaced own-source revenue growth in recent years. Reversing this trend is critical to eliminating the current budget deficits. Wage restraint will not be sufficient. Expect to see Atlantic governments forced to make some tough choices to limit spending growth and strengthen revenues in the years ahead.

Newfoundland & Labrador

Current Conditions

Declines in production in Newfoundland and Labrador's resource-based sectors are dragging down the provincial economy this year but steady retail spending and higher capital investment have provided some offset. APEC's Major Projects Inventory predicts capital investment will grow 18% in 2009.

Newfoundland and Labrador's economy will rebound in 2010, leading the Atlantic region with growth of 3.0% as mining production recovers.

Oil production has fallen almost 19% in the year to August, with declines at all three projects. With oil prices also lower, energy exports are down over 50%. Temporary mine shutdowns and a strike at the Voisey's Bay nickel mine have contributed to lower output. Newfoundland and Labrador's Department of Natural Resources forecasts the value of mineral shipments will fall over 50% this year.

Exports other than energy and mining are down 17% so far this year, due to declines in newsprint and shellfish (shrimp in particular). The drop in newsprint reflects the closure of the Abitibi-Bowater mill in Grand Falls-Windsor while low prices and only a partial shrimp quota catch have impacted the fishery.

According to Statistics Canada's Labour Force Survey, employment was 2.9% lower in the first three quarters of 2009 versus a 1.7% dip nationally. The closure of the AbitibiBowater newsprint mill in Grand Falls-Windsor resulted in the loss of 800 jobs.

Despite the decline in employment, a 4.7% increase in labour income in the first half of 2009 buoyed the housing market and boosted retail sales by 1.6% in the year to date. Newfoundland and Labrador's housing market has shown resilience. Existing home prices were up 18% in the first three quarters of 2009 while housing starts fell only 3% compared with a 44% decline nationally in the first half of 2009.

Outlook

A sharp drop in oil and mining output, combined with weakness in other traditional industries, will push real GDP down by 6.5% this year. Newfoundland and Labrador's economy will rebound in 2010, leading the Atlantic region with growth of 3.0% as mining production recovers. Non-residential investment will also support growth next year with APEC expecting a 23% increase in major project spending. Job growth will be much more muted, led by higher employment at the Voisey's Bay processing facility. Income gains, supported by public sector pay increases and a hike in the minimum wage, along with a net in-migration, will help lift retail spending next year.

Increased mining production will be the main factor driving provincial GDP growth in 2010 with a return to a full year of production expected at iron ore mines and at the Voisey's Bay nickel mine. However, there are risks of further temporary shut downs if metal prices are slow to recover as global demand picks up. Work on the $2.2 billion Voisey's Bay nickel processing facility will grow significantly in 2010 as construction of the main facility and wharf development begins. Labour requirements will pick up from about 700 in 2009 to over 1,700 next year with employment expected to peak in 2011 at 2,100.

Spending on the White Rose oilfield expansion project will increase next year as development of the North Amethyst tieback field continues. First oil from the North Amethyst field is expected in 2010 and will help offset the natural declines that are occurring at the White Rose field. North Amethyst will continue to be developed next year and engineering and other early work on the other

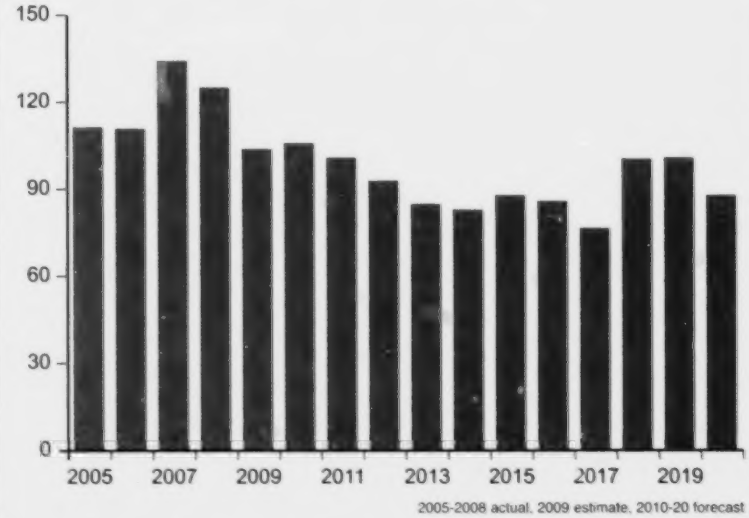
two fields (West White Rose and South White Rose) will also pick up. An initial phase of the Hibernia South project will go ahead this fall and begin producing oil next year (48 million barrels). This will help maintain production levels at the Hibernia field. About four new wells are expected to be drilled for the development which will cost nearly $200 million. Final approval to move ahead on the remaining reserves of Hibernia South (containing 170 million barrels of oil) is expected next year. Provincial oil production is estimated to be about 105 million barrels in 2009, with little change next year.

Offshore exploration may begin to pick up in 2010 as Conoco-Phillips plans to drill its first natural gas exploration well in the Laurentian Sub-Basin off the province's south coast and Husky has several oil prospects that it may drill over the next two years. Mining exploration fell dramatically in 2009 to about $58 million, down from an average of $147 million over the previous two years. Mining exploration will be slower to recover as metal prices next year are still expected to be well below highs reached in the 2006-2008 period.

Weakness is likely to continue in the manufacturing sector due to low newsprint and fish prices. Production at the province's remaining paper mill has been cut back and further challenges loom in the months ahead as demand for newsprint continues to fall and the Canadian dollar remains strong. The fishery may rebound slightly next year as demand improves in U.S., European and Asian markets and assuming the entire shrimp quota is caught.

Higher oil prices should increase provincial royalty revenues next year, easing the provinces $750 million projected deficit in 2009-2010. The province boosted its capital spending by 55% this year to $800 million as part of a multi-year $4 billion capital plan. This plan will support infrastructure spending for the next few years.

New Developments Helping to Moderate Declines from Current Oil Fields
Newfoundland and Labrador oil production (millions of barrels)



2005-2008 actual, 2009 estimate, 2010-20 forecast

Source: Canada Newfoundland and Labrador Offshore Petroleum Board/NL Dept. of Natural Resources/APEC

Newfoundland and Labrador Outlook	2008	2009e	2010f
Real GDP (% Change)	-0.1	-6.5	3.0
Employment (% Change)	1.5	-2.4	0.9
Unemployment Rate (%)	13.3	15.4	15.8
Retail Sales (% Change)	7.6	2.3	4.4
Inflation (% Change CPI)	2.9	0.4	1.7
Housing Start (000s)	3.3	3.0	3.0

e=estimate, f=forecast

Source: APEC

While other Atlantic provinces face a gap in investment spending after 2010, Newfoundland and Labrador has several projects lined up that will support growth well into the next decade. Early engineering work on the Hebron oil project is slated to start next year. Subject to regulatory approval, full construction will start in 2012. The $10 billion Lower Churchill hydroelectricity project is now in the environmental review phase and a decision on the review is expected in mid-2010, which is the earliest the project could be approved.■

Provincial Report
Prince Edward Island

Current Conditions

The pace of economic activity in Prince Edward Island softened in 2009, but the province escaped the full impact of the recession. According to Statistics Canada's household-based Labour Force Survey, employment in Prince Edward Island declined 2.3% in the year to September, but Statistics Canada's business payroll survey points to a small increase in employment. Labour income is estimated to have increased 4.7% in the first half of 2009, well above the 0.6% gain nationally.

APEC is forecasting economic growth of 1.5% next year... Higher government spending will help underpin the Island's recovery.

Despite the strong income growth, retail sales dipped 1.1% in the year to date to July. Motor vehicle sales fell 10% in the first half of the year but non-automotive spending still advanced by 3.4%. Prince Edward Island's housing market has also been quite stable, as housing starts fell 2% in the first half of 2009 versus a 44% free-fall in Canada. Non-residential construction investment is up 53% in the first three quarters boosted by government spending and commercial projects.

Exports of shellfish are down more than 25% led by declines in lobster and crab. Lobster landings increased 3% in the spring 2009 lobster fishery, but harvesters earned only $3 per pound. Ocean Choice had closed its Beach Point lobster processing facility for most of the spring.

Farm cash receipts increased in the first half of 2009, as higher prices led to a 25% increase in potato receipts. However, the potato acreage is down 8% in 2009. Potato growers reached a new deal with Cavendish Farms that will lead to a 15% reduction in processing volumes this year. Exports of fresh potatoes are flat this year but processed potato exports are up 20%.

Overall, total merchandise exports are up 1% in the first eight months of 2009, with gains in aerospace and pharmaceuticals. In terms of tourism, room nights sold are down 4% in the year to August. Prince Edward Island got a boost from hosting the 2009 Canada Summer Games with non-resident vehicle traffic on the fixed link up almost 8% so far this year.

Outlook

Strong labour income growth suggests that Prince Edward Island may have escaped a decline in real GDP this year, with APEC predicting a small increase of 0.4% in GDP in 2009. Growth averaged 2.4% between 2004 and 2007, well below the national pace of 2.9%. While the Island may have survived the recession better than the rest of Canada, it is not likely to benefit as strongly from the recovery. Without any large major projects on the immediate horizon, Prince Edward Island is likely to return to its sub-national growth path. APEC is forecasting economic growth of 1.5% next year, well below the national pace of 2.5%. Higher government spending will help underpin the Island's recovery.

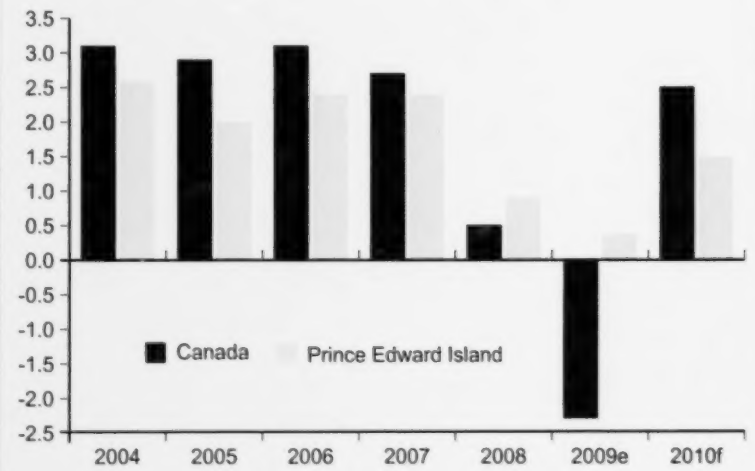
The largest investment projects in Prince Edward Island in recent years have been wind power related or public sector projects. That trend is likely to continue. The next big project on the horizon is the province's wind energy plan, which could add an additional $800 million of wind infrastructure in the province. However, plans to move ahead with an Request For Proposals from

the province have been delayed by over a year because of the problems wind power producers were facing in credit markets. Some of those pressures have eased and the province expects to send out the first phase of the RFP in the next few months. Later phases of the energy plan will require an additional power line connecting the Island with New Brunswick. Large scale private sector investment outside of wind farms is weak but Homburg is building a new office/ hotel project in downtown Charlottetown. Population growth is supporting activity in Charlottetown, with an increase in housing starts expected next year.

The province announced a five-year $510 million capital plan last fall that will peak next year at $133 million. The spending in 2010 includes $60 million for highways, bridges and other transportation projects and $42 million for health infrastructure including the expansion of the Queen Elizabeth hospital in Charlottetown and new nursing homes. Federal government stimulus programs are expected to have a bigger impact in 2010 with spending on community infrastructure and highways.

The bioscience sector will continue to be a growth engine in Prince Edward Island. Construction will begin next spring on a $30 million BioCommons in Charlottetown that will aid in the expansion of the bioscience cluster in PEI. A new $17 million Centre for Applied Science and Technology will be built at the Charlottetown campus of Holland College. The project will also support the bioscience sector on the Island and is part of a larger $40 million expansion at the College.

Prince Edward Island Survives Recession, Returns to Modest Growth Path
Change in real GDP (%)



Source: Statistics Canada/APEC

Prince Edward Island Outlook	2008	2009e	2010f
Real GDP (% Change)	0.9	0.4	1.5
Employment (% Change)	1.3	-2.0	0.7
Unemployment Rate (%)	10.7	12.4	12.8
Retail Sales (% Change)	5.6	-1.3	3.5
Inflation (% Change CPI)	3.4	0.0	1.6
Housing Start (000s)	0.7	0.6	0.7

e=estimate, f=forecast

Source: APEC

The traditional agri-food and tourism sectors of the PEI economy continue to be important but growth is expected to be modest as the high dollar will impact these industries. The fishery will struggle to regain footing as lobster demand slowly begins to pick up while production from the potato acreage is not expected to increase next year. Tourism activity is likely to be subdued but the aerospace sector could begin to see some pick up. ■

Provincial Report
Nova Scotia

Current Conditions

The recession impact is clearly evident across Nova Scotia's economy although declines in activity are smaller than nationally. According to the Statistics Canada's Labour Force Survey, overall employment in Nova Scotia is flat to the end of September, with gains in services in Halifax offset by manufacturing job losses elsewhere in the province. Labour income growth has slowed to 2% with retail sales down 2% in the year to July. Vehicle sales took a big hit in the first half of the year, down 12%, while there was a 13% drop in Canada.

The economy should rebound in 2010 to 1.7%, boosted by higher natural gas output and higher investment spending.

Housing starts fell 32% in Nova Scotia in the first half of 2009, with declines in both single and multiple starts. Resale activity also dropped sharply, down 13% in the first three quarters of the year but prices of existing homes still advanced 3%. In terms of non-residential construction, building permits show a 35% increase in the year to August. APEC predicts a 23% increase in major project spending this year, led by offshore spending and a ramp-up in infrastructure spending.

Nova Scotia's energy and forestry sectors were hit by falling commodity prices. Natural gas exports are down 65% so far this year due to a 22% drop in offshore gas production and a 60% decline in prices. As a consequence, the Province expects offshore royalties to tumble 67% this fiscal year.

In the forestry sector, lumber prices are off 18% in the first three quarters of 2009 with housing starts falling in both Canada and the U.S. Some sawmills have shut down contributing to a 34% fall in exports in the year to August. Weak demand has also led to lower prices for newsprint and pulp and triggered a number of temporary shutdowns at Nova Scotia's three pulp and paper mills. Nova Scotia's paper exports are down 12% in the first eight months of the year while pulp exports are 21% lower.

Total non-energy exports are down 11% in the year to August as demand fell in the United States. Exports of tires declined 7% while exports of motor vehicle parts dropped 43% with the closure of plants in Cape Breton. Frozen fruit exports were down 32%, partly due to low prices for blueberries. The decline in trade has been felt at the Port of Halifax where containerized cargo tonnage was down 22% in the first three quarters of 2009. Tourism has also been affected with a 5% decline in room nights sold as of the end of August, and a 15% drop in the number of cruise passengers at the Port of Halifax.

Outlook

Nova Scotia is expected to experience a 0.8% decline in real GDP this year due to the impact of the recession on exports and domestic spending. The economy should rebound in 2010 to 1.7%, boosted by higher natural gas output and higher investment spending.

Employment growth will be muted next year as firms are cautious to expand and the provincial government attempts to reduce its swollen deficit. Stronger income growth and improved confidence should help retail spending advance about 3.4% in 2010, still well below the 5% average growth rate during the three years prior to the recession. Nova Scotia's housing market is expected to

stage a partial recovery in 2010 with CMHC forecasting a 9% gain in housing starts.

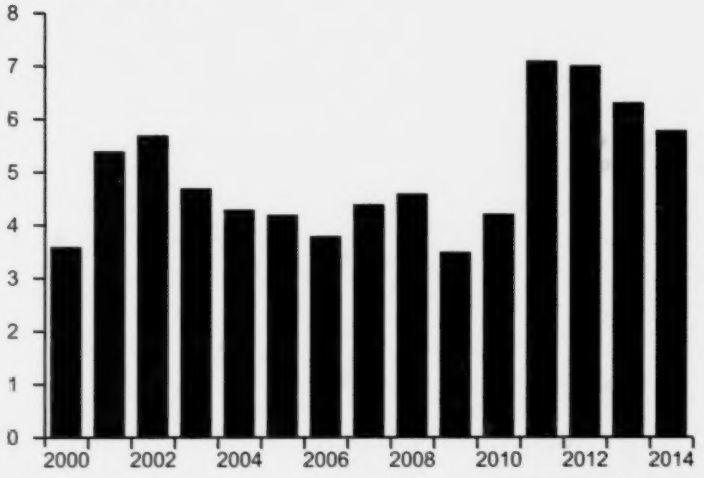
Output from the forest sector is likely to remain depressed in 2010. AbitibiBowater announced in September that it is cutting production by 50% going forward at its Liverpool mill. With demand recovering only modestly and the Canadian dollar moving back in to the mid-to-high 90 cents against the U.S. dollar, it could be well into 2011 before activity in Nova Scotia's forest sector begins to recover. The higher Canadian dollar will also dampen the gains from improved global demand in other export sectors.

Spending on the Deep Panuke project was expected to fall from about $350 million this year to $210 million next year. However the drop off may not be as steep as a larger portion of the $160 million drilling program by the Rowan Gorilla III will now take place in 2010. Other work on Deep Panuke next year includes construction of an offshore supply vessel by Irving Shipbuilding, and the hookup and commissioning of the new platform and subsea wells. Production at Panuke will get underway late in 2010 and provide a significant boost to natural gas output in 2011, the first full year of production. Natural gas output will also increase in 2010 as a new well drilled at the existing Sable field helps increase production levels. However, no new exploration wells are anticipated next year – the last exploration well was drilled in 2005.

The public sector will continue to provide investment support next year with higher federal stimulus spending. Provincial spending on roads and education (including school construction and renewal and infrastructure spending at universities) will continue to be an important driver. Over $600 million of highway and road projects are proposed in the province over the next four years. The Tar Ponds Clean-up will continue in 2010 with over $50 million being spent. New hospitals (including a $155-million facility in Truro) and long-term care homes throughout the province will also support construction over the next few years. However, with the Deep Panuke gas project ending in 2010 and much of the federal stimulus likely wrapping up shortly after there may be a lull in capital spending in the province in 2011 unless some other projects move forward soon. ■

Nova Scotia's Natural Gas Production Will Grow Over the Next Two Years

Billion cubic metres per year



2000-2008 actual, 2009 estimate, 2010-12 forecast

Source: Canada Nova Scotia Offshore Petroleum Board/Exxon Mobil/EnCana/APEC

Nova Scotia Outlook	2008	2009e	2010f
Real GDP (% Change)	2.0	-0.8	1.7
Employment (% Change)	1.2	-0.1	0.5
Unemployment Rate (%)	7.7	9.2	9.6
Retail Sales (% Change)	4.2	-1.2	3.4
Inflation (% Change CPI)	3.0	0.0	1.6
Housing Start (000s)	4.0	3.1	3.3

e=estimate, f=forecast

Source: APEC

Provincial Report
New Brunswick

Current Conditions

Although New Brunswick has not fared as badly as Canada in the recession, most indicators point to a decline in economic activity in 2009 for this export-dependent province.

New Brunswick's mining and manufacturing sectors have been hard hit by the decline in commodity prices, with a 27% decline in manufacturing shipments. Production from the Potash Corporation's mine near Sussex will be down over 50% this year due to planned shut downs and maintenance. The mill has halted production several times this year to run down inventories, as farmers globally purchased less fertilizer to save costs. Zinc exports are down 35% in the first eight months of 2009. NB Coal Ltd. will close its Minto operations at the end this year as a result of the closure of the NB Power's Grand Lake generating station.

The province will return to growth of about 1.4% next year as export markets improve while investment and consumer spending increases.

New Brunswick's forestry industry was hit hard by falling prices for lumber and pulp and paper with a number of temporary mill shutdowns. Shipments of wood products are down 9% in the year to August. Pulp mill exports are down 23% in the year to August. On a positive note, Aditya Birla Group received $50 million in federal funding to install green technology at its two pulp and paper plants in New Brunswick.

Exports of refined petroleum were down 33% in the year to August. Exports were also lower in many other sectors, including seafood products, although the value of frozen french fries increased. Service exports have likely also taken a hit with lower activity at call centres. In the tourism industry, room nights sold were down 3% in the year to August despite an increase in visits.

Overall employment in New Brunswick was flat in the year to September, according to Statistics Canada's Labour Force Survey, with job losses in the mining and manufacturing sectors. Wage growth helped labour income advance 1.6% in the first half of 2009, compared with a 0.7% gain in Canada. Growth in disposable income moderated the impact of the recession on consumer spending. Retail sales shrank 1% in the year to July. However, while motor vehicle sales fell 9% in the first half of the year, non-automotive spending rose 5.6%. Although existing housing prices increased almost 6% during the first three quarters of 2009, new home construction fell 24% in the first half of 2009.

Outlook

New Brunswick's GDP is expected to decline by 1.1% in 2009 due to a drop in private sector investment and lower output in mining and manufacturing. The province will return to growth of about 1.4% next year as export markets improve while investment and consumer spending increases.

The mining, forest and fishing industries should all see stronger prices in 2010 as demand picks up in the U.S. and globally. Higher mineral prices could help revive mining activity in the province which has slowed considerably as prices plunged during the recession. The assets of the Caribou and Restigouche lead/zinc mines in northern New Brunswick were purchased in October 2009 with the intention of reopening the mine next year. Other mines in development prior to the recession may also regain some momen-

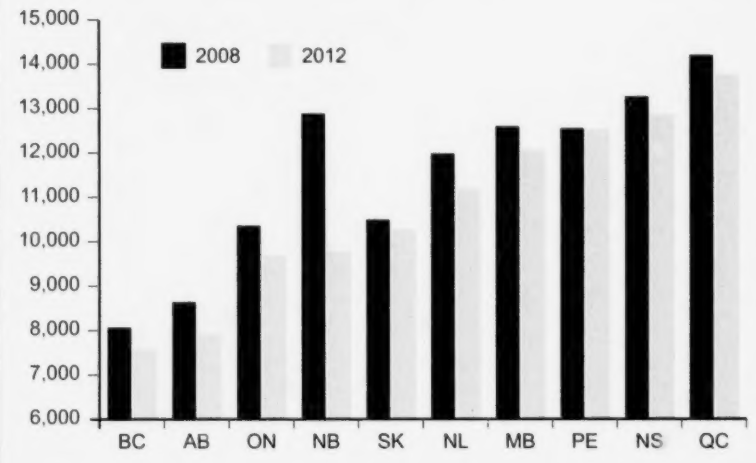
tum as prices rise. Prices for lobster and crab should improve marginally in 2010 as the appetite for luxury food items improves in the U.S. and Japan. The forest industry will also see some benefit from higher prices and stronger U.S. demand but this will be tempered by a stronger Canadian dollar.

New Brunswick has had strong growth in investment over the last few years as several large projects have boosted activity. However, APEC estimates that major project spending fell about 13% in 2009 as these projects wrapped up. For example, the Canaport LNG facility is largely complete and the supporting pipeline is in operation.

Capital spending in 2010 will be led by the Potash Corp.'s $1.7 billion expansion near Sussex. Work will begin on the new mine facility in 2010 and overall activity on the project will peak over the next two years. A $700-million solar cell plant, to be built by Umoe Solar of Norway, is expected to get underway next year. The project will employ up to 1,000 during the construction phase and about 300 when it opens in early 2012. The $1 billion refurbishment of Point Lepreau, begun in March 2008, was due to be completed in September 2009 but is not expected to be back on line until early 2011. As a result, project costs and electricity purchases, will both be higher than previously forecast. These projects, along with higher government stimulus spending, will contribute to an estimated 7% increase in major project spending next year.

Consumer spending is expected to pick up in 2010, partly aided by provincial income tax relief. The tax cut slated for January 2010 is the biggest component of the province's four-year plan to cut personal income tax. In 2010, a single individual earning $40,000 in taxable income will save about $430 in income tax compared to what they would have paid in 2008; an individual earning $100,000 will save about $2,400. The biggest improvements in personal tax competitiveness are at the higher income levels (see chart). According to New Brunswick's Department of Finance, in 2012 the province will still have the sixth highest income tax for an individual earning $40,000.■

New Brunswick Improves Its Tax Competitiveness for High Income Earners
Provincial tax payable on $100,000 taxable income, single earner (dollars)



Source: NB Finance (as of March 2009)

New Brunswick Outlook	2008	2009e	2010f
Real GDP (% Change)	0.0	-1.1	1.4
Employment (% Change)	0.9	-0.1	0.5
Unemployment Rate (%)	8.6	9.1	9.5
Retail Sales (% Change)	5.9	-1.3	3.6
Inflation (% Change CPI)	1.7	0.3	1.4
Housing Start (000s)	4.3	3.4	3.5

e=estimate, f=forecast

Source: APEC

Atlantic Economic Snapshot

ATLANTIC ECONOMIC SNAPSHOT

Labour Markets

	Period	NFLD	PEI	NS	NB	Atlantic	Canada
Employment	Jan-Sep 09	214.9	68.8	452.8	365.8	1,102.3	16,852.9
thousands	Jan-Sep 08	220.9	70.5	452.5	365.6	1,109.4	17,115.8
	%change	-2.7	-2.3	0.1	0.1	-0.6	-1.5
Unemployment Rate	Jan-Sep 09	15.3	12.4	9.1	9.0	10.5	8.2
percent	Jan-Sep 08	13.1	10.5	7.7	8.6	9.3	6.1
Unemployment Rate	Sep 09	15.3	11.8	9.5	8.1	10.4	8.4
percent (current month)	Sep 08	13.5	11.3	7.7	8.1	9.2	6.2
Participation Rate	Jan-Sep 09	59.2	67.8	64.6	64.7	63.6	67.3
percent	Jan-Sep 08	59.7	68.9	63.8	64.8	63.5	67.8

Consumer Markets

	Period	NFLD	PEI	NS	NB	Atlantic	Canada
Consumer Price Index (CPI)	Jan-Sep 09	114.4	116.8	115.4	113.1	n/a	114.3
2002=100, unadjusted (period avg.)	Jan-Sep 08	114.1	117.4	116.0	113.2	n/a	114.1
	%change	0.3	-0.5	-0.5	-0.1	n/a	0.1
Residential Permits	Jan-Aug 09	400.9	73.6	493.8	366.1	1,334.4	19,640.4
$ millions	Jan-Aug 08	360.7	75.0	573.0	383.4	1,392.0	29,218.0
	%change	11.2	-1.9	-13.8	-4.5	-4.1	-32.8
Urban Housing Starts	Jan-Aug 09	1,233.0	376.0	1,616.0	1,687.0	4,912.0	76,257.0
Units; unadjusted	Jan-Aug 08	1,312.0	317.0	2,231.0	2,044.0	5,904.0	128,332.0
	%change	-6.0	18.6	-27.6	-17.5	-16.8	-40.6
Rural Housing Starts	Jan-Jun 09	269.0	74.0	236.0	330.0	909.0	7,308.0
Units; unadjusted	Jan-Jun 08	333.0	95.0	261.0	440.0	1,129.0	9,628.0
	%change	-19.2	-22.1	-9.6	-25.0	-19.5	-24.1
Retail Trade	Jan-Jul 09	4,156.7	983.9	6,952.7	5,607.0	17,700.2	237,517.6
$ millions	Jan-Jul 08	4,091.7	994.3	7,109.8	5,675.5	17,871.2	249,854.9
	%change	1.6	-1.1	-2.2	-1.2	-1.0	-4.9

Industrial Markets

	Period	NFLD	PEI	NS	NB	Atlantic	Canada
Total Non-Energy Exports	Jan-Aug 09	1,953.9	567.5	2,386.6	2,297.7	7,205.7	183,729.0
$ millions, unadjusted	Jan-Aug 08	2,174.0	563.1	2,682.4	2,697.9	8,117.5	232,034.2
	%change	-10.1	0.8	-11.0	-14.8	-11.2	-20.8
Total Energy Exports	Jan-Aug 09	3,906.5	2.7	399.5	4,520.8	8,829.4	52,333.0
$ millions, unadjusted	Jan-Aug 08	7,827.1	1.7	1,219.9	6,666.4	15,715.1	91,628.8
	%change	-50.1	57.2	-67.3	-32.2	-42.7	-42.9
Manufacturing Shipments	Jan-Aug 09	2,901.1	884.8	5,991.1	9,494.8	19,271.7	323,400.7
$ millions	Jan-Aug 08	4,765.0	932.3	7,208.3	12,978.7	25,884.3	405,739.0
	%change	-39.1	-5.1	-16.9	-26.8	-25.5	-20.3
Non-Residential Permits	Jan-Aug 09	63.2	30.0	222.9	216.2	532.3	15,257.7
$ millions	Jan-Aug 08	62.6	51.1	165.1	166.9	445.7	17,632.0
	%change	1.0	-41.3	35.0	29.6	19.4	-13.5

Note: Seasonally adjusted unless otherwise noted (unadjusted).

Source: Statistics Canada